

Message Text

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SUBJ: TAX CHANGES

1. SUMMARY: PROPOSED TAX CHANGES INCLUDE 10 PERCENT INVESTMENT TAX CREDIT, "EXCESS" PROFITS TAX, LOWER INCOME TAX RATES FOR INDIVIDUALS EARNING UP TO 50,000 PESOS A YEAR, HIGHER SALES TAXES ON BEER, TOBACCO AND A VARIETY OF LUXURY GOODS, AND HIGHER AUTOMOBILE-USE TAXES. END SUMMARY.

2. INCOME TAX. RATES ON INDIVIDUALS WITH INCOMES UP TO 50,000 PESOS ANNUALLY, OR APPROXIMATELY DOUBLE THE MINIMUM WAGE WILL BE REDUCED. RATES ABOVE THIS LEVEL WILL REMAIN THE SAME. REDUCTION IN RATES FOR LOWER INCOME GROUP LABELLED A FINANCIAL LOSS, BUT NECESSARY TO MAINTAIN PURCHASING POWER OF THESE GROUPS. RATES ON INCOMES ABOVE ROUGHLY 50,000 PESOS WERE NOT CHANGED WHICH MEANS THEIR TAX BURDEN WILL INCREASE.

3. A TEN PERCENT TAX CREDIT TO BE USED AGAINST CORPORATE INCOME TAX LIABILITY WAS INTRODUCED. THE TAX CREDIT HAS TO BE TAKEN OVER A FOUR-YEAR PERIOD AND WILL BE GRANTED FOR INVESTMENT IN NEW MACHINERY IN ACCORD WITH RULES YET TO BE RELEASED. THE ENTIRE AMOUNT OF UNCLASSIFIED

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THE NEW INVESTMENT CAN BE DEPRECIATED.

4. AN EXCESS PROFITS TAX WAS ESTABLISHED, OSTENSIBLY TO CAPTURE GAINS MADE AS A RESULT OF THE DEVALUATION. BASIS FOR DETERMINING IF THERE ARE EXCESS PROFITS WILL BE THE SUM OF GROSS PROFITS OVER THE PREVIOUS

THREE FISCAL YEARS DIVIDED BY THE SUM OF TOTAL REVENUE OVER THE SAME PERIOD. THE QUOTIENT WILL BE COMPARED TO THAT FOR THE PREVIOUS FISCAL YEAR. THE LARGER OF THE TWO WILL BE MULTIPLIED BY TOTAL REVENUES FOR THE CURRENT YEAR. THE RESULT IS THE AVERAGE GROSS PROFIT OF THE TAXPAYER. THE BASE FOR THE EXCESS PROFITS TAX WILL BE THE DIFFERENCE BETWEEN GROSS PROFITS FOR THE CURRENT YEAR MINUS THE AVERAGE GROSS PROFIT FIGURE. THE TAX RATE WILL BE THE QUOTIENT OF THE BASE DIVIDED BY INCOME DURING THE CURRENT YEAR TIMES 1000, BUT SHALL NOT EXCEED FIFTY. THIS SEEMS VERY COMPLICATED.

5. OTHER CHANGES IN THE INCOME TAX LAW INCLUDE THE PROVISION THAT FOREIGN EXCHANGE LOSSES MAY BE TAKEN IN THE YEAR THEY OCCUR, OR MAY BE TAKEN OVER FOUR YEARS. THE COST OF MAINTAINING LARGE AUTOMOBILES ARE NOT DEDUCTIBLE FOR INCOME TAX PURPOSES. THE RULES ON CAPITAL GAINS FROM REAL ESTATE WERE TIGHTENED SOMEWHAT.

6. THE SPECIFIC TAX ON BEER AND TOBACCO PRODUCTS HAS BEEN INCREASED SO THAT THE EFFECTIVE RATE IS RESTORED TO WHAT IT WAS PRIOR TO THE PRICE INCREASES GRANTED THIS YEAR.

7. THERE HAVE BEEN A NUMBER OF INCREASES IN THE GROSS RECEIPTS OR SALES TAX (INGRESOS MERCANTILES). THE NUMBER OF FIRMS OR INSTITUTIONS SUBJECT TO THE TAX HAS BEEN INCREASED, TO INCLUDE ASSOCIATIONS AND OTHER GROUPS WHOSE ACTIVITIES ARE ESSENTIALLY COMMERCIAL. THIS MAY APPLY TO "NON-PROFIT" ORGANIZATIONS. THE BASIC SALES UNCLASSIFIED

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TAX IS 4 PERCENT.

8. SALES TAX RATES ON NEW AUTOMOBILES ARE AD VALOREM, BUT BASED ON THE OFFICIAL PRICE OF THE CARS. THE AD VALOREM RATES REMAIN THE SAME, BUT THE OFFICIAL PRICES TO WHICH THEY APPLY HAVE BEEN RAISED. FOR EXAMPLE, THE 5 PERCENT RATE APPLIED TO 1975 MODEL CARS WHOSE PRICE WAS LESS THAN 48,000 PESOS. THE FIVE PERCENT RATES WILL APPLY TO 1977 MODELS WHOSE PRICE IS LESS THAN 87,000 PESOS. THE TEN PERCENT LEVY WILL NOW APPLY TO LIGHTERS, COSMETICS, SOME TYPES OF SPORT EQUIPMENT, HIGHER PRICED WOOD FURNITURE AND LAMPS, HAIR DRYERS, ETC. THE 15 PERCENT RATE WILL APPLY TO AUTO ACCESSORIES, CRYSTAL. THE 30 PERCENT RATE WILL APPLY TO EXPENSIVE WATCHES, DIAMONDS AND OTHER PRECIOUS STONES AND THEIR SETTINGS, EQUIPMENT FOR POLO, GOLF, RIDING, AND SWIMMING POOLS, AND TO CABLEVISION.

9. THE YEARLY AUTOMOBILE-USE TAX HAS ALSO BEEN INCREASED. THIS IS A FIXED RATE TAX THAT HAS BEEN ADJUSTED ONLY TO COMPENSATE FOR INFLATION, ACCORDING TO A TREASURY SPOKESMAN.

10. SEVERAL ANTICIPATED CHANGES WERE NOT MADE. THE 15 PERCENT SALES TAX ON RESTAURANT MEALS REMAINS AS DOES THE 21 PERCENT ON INTEREST PAYMENTS ABROAD.

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